# Clifford Capital Partners Fund

## *Quarterly Commentary – Second Quarter 2022*

### Performance Summary

| | 2nd Quarter 2022 | Year-to-Date | *Average Annual Returns as of June 30, 2022* 1-Year | 3-Year | 5-Year | Inception (1/30/2014) | Total Return, Inception (1/30/2014) |
|---|---|---|---|---|---|---|---|
| Institutional Class (CLIFX) | -9.96% | -9.63% | -11.97% | 8.77% | 8.20% | 9.87% | 120.76% |
| Investor Class (CLFFX) | -10.04% | -9.71% | -12.16% | 8.53% | 7.97% | 9.65% | 117.00% |
| Russell 3000® Value[1] | -12.41% | -13.15% | -7.46% | 6.80% | 7.00% | 8.10% | 92.62% |

| | 2nd Quarter 2022 | Year-to-Date | *Average Annual Returns as of June 30, 2022* 1-Year | 3-Year | 5-Year | Inception (10/17/2019) | Total Return, Inception (10/17/2019) |
|---|---|---|---|---|---|---|---|
| Super Institutional Class (CLIQX) | -10.01% | -9.64% | -11.92% | n/a | n/a | 9.84% | 28.88% |
| Russell 3000® Value | -12.41% | -13.15% | -7.46% | n/a | n/a | 7.14% | 20.50% |

**Expense Ratio Gross/Net: CLIFX 1.42%/0.90%; CLFFX 1.61%/1.15%; CLIQX 1.35%/0.82%

***Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (800) 628-4077. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns.***

**Clifford Capital Partners, LLC (the "Adviser") has contractually agreed to reduce fees and/or reimburse certain Partners Fund expenses until January 31, 2023.

We hope that this letter finds you well. We are grateful for your investment with us.

### Performance Summary

It was a difficult quarter for the stock market and the Clifford Capital Partners Fund ("the Fund") posted a loss, but the Fund meaningfully outperformed its benchmark during the quarter and has held up reasonably well in a tough environment so far in 2022. In a continuation of a theme from the first quarter, we attribute most of the market's weakness during 2022 to higher market interest rates and the Fed beginning to tighten monetary conditions as the country's monetary policymaking officials are striving to fight inflationary forces. These effects were exacerbated, in our opinion, by extremely high stock valuations in certain subsets of the market coming into the year. As a side companion to those issues, investor worries about an economic recession have also risen, which did not help the stock market's mood during the quarter.

Overall, the excess enthusiasm for stocks that we witnessed at points last year—especially among more speculative, exciting "story stocks"—has mostly evaporated. As we discussed in last quarter's commentary, we believed the stock market's former exuberance was driven by the fear of missing out—FOMO—which continues to be incrementally replaced by the fear of losing money. We believe these are natural, recurring cycles in markets and current negative sentiment (and the attractive valuations that often accompany such negativity) has led to some bargains already, and we believe it could produce some more.

1 The Russell 3000® Value Index is a capitalization-weighted index which is designed to measure performance of Russell 3000 Index companies, respectively, with lower price-to-book ratios and lower forecasted growth values. Numbers presented include the reinvestment of dividends (total return).

Similar to the first quarter, the Fund's Core Value stocks outperformed its Deep Value investments during the second quarter and its larger-cap stocks outperformed its small-cap ones. This has been a trend over the last 12-14 months, which has been a strong factor in the Fund's disappointing one-year performance numbers, but our conviction remains strong in these investments. We continue to believe that the Fund's best investment opportunities today lie in its currently underperforming Deep Value and smaller-cap investments, many of which are trading at extremely attractive levels, in our opinion. We continue to feel good about the current valuation level and the positioning of the Fund in today's investment environment.

**Revisiting Market Valuations After Another Rough Quarter – Are Stocks Cheap Yet?**

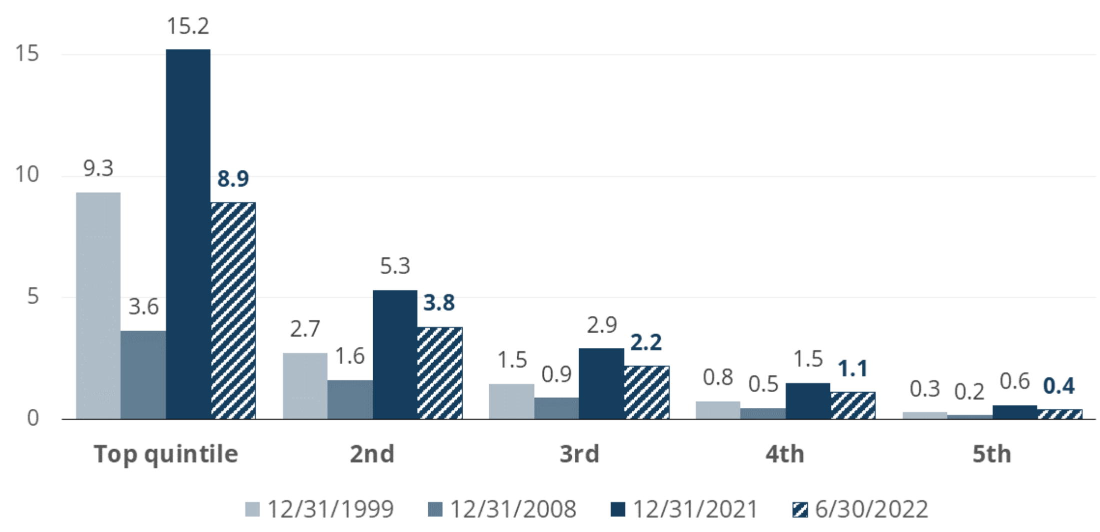
In our last two commentaries, we've shown a chart of the valuation levels of the Russell 3000 index[2] (a good proxy for the entire U.S. stock market) which illustrated that the U.S. stock market was more expensive coming into 2022 than it was at the end of 1999 (near the end of the dotcom bubble), and significantly higher than it was at the end of 2008, (near the end of the Great Financial Crisis and what, in hindsight, was a great buying opportunity). We segmented the Russell 3000 Index constituents into five equal groups (quintiles) ranked on their price to sales ratio, which we believe is a simple valuation metric, but one that is less vulnerable to fluctuations in earnings/cash flow. The price to sales ratio is a simple answer to the question, "how many dollars are stock investors paying for each dollar of sales generated by a company?"

Given the declines in each of the first two quarters of 2022 (Russell 3000 index declined 21.1% during the first six months of the year), we've updated this chart again as of June 30 to show how much valuations have declined so far this year. The table and chart below show the average performance and price to sales ratios, respectively of the most expensive to least expensive quintiles of stocks for each of the four periods:

**Price to Sales Ratios[3] at the end of 1999, 2008, 2021 and June 30, 2022**
***(most expensive to least expensive quintiles)***

Average YTD Return (*1/1/2022 – 6/30/2022)* of each quintile

| Top | 2nd | 3rd | 4th | 5th |
|---|---|---|---|---|
| **-36.4%** | **-23.6%** | **-17.7%** | **-16.6%** | **-18.2%** |




2 The Russell 3000® Index is a capitalization-weighted index which is comprised of the stocks within the Russell 1000® and the Russell 2000® Indices. This index of securities represents approximately 98% of the investable U.S. equity market. Numbers presented include the reinvestment of dividends (total return). An investor cannot invest directly in an index. Moreover, index performance does not reflect the deduction of advisory fees, transaction charges, and other expenses.

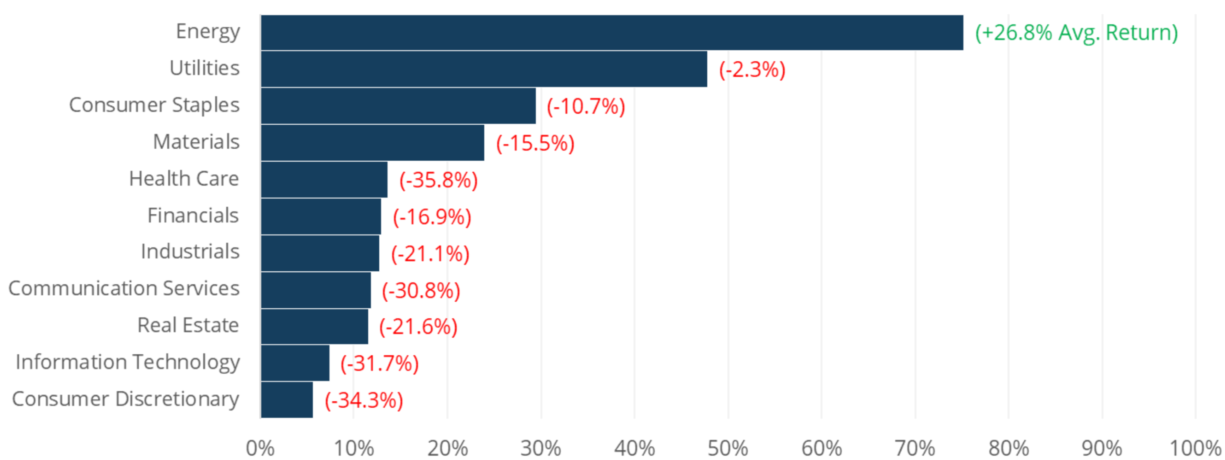
3 Price to Sales ratio is the ratio of a company's or index's current market capitalization to its sales over the prior 12 months as of the date of the analysis. For this chart, the Russell 3000® Index was sorted by highest to lowest price to sales ratio in fifths (quintiles) for all index stocks with available price/sales data for each time period (about 90%, 95%, and 92% of total Index constituents were included for 1999, 2008, and 2021, respectively). 6/30/2022 data was obtained from the same constituents as at 12/31/2021 for comparability. The datapoint presented on the chart is the median price/sales ratio for each quintile.

As is clear from the chart above, U.S. stock valuations have meaningfully declined in 2022 so far, especially in the most expensive subset of the market, which has been hit the hardest. However, stocks continue to be valued at historically high levels and still close to the price/sales ratio coming into the year 2000, near the peak of the dotcom bubble. We're pleased that some of the froth has been blown off the top of the market's stein, but we also do not yet see a rich bounty of widespread undervalued bargains just yet. To be sure, we're finding more potential investment ideas today, but in many areas of the market, we believe that valuations have simply moved from "silly" to "reasonable" levels.

**Other Market Observations**

- ***Declines are widespread – an environment becoming conducive for finding contrarian investment ideas.*** We recently read that we just experienced the worst first-half stock market decline (using the S&P 500 as a proxy) since the 1960s and among the worst in modern stock market history. In that context, the Fund's roughly 10% decline does not seem too bad, but without question it has been a difficult 2022 so far. To illustrate how tough it has been to find winners this year, we noted that only ~16% of the Russell 3000 constituents[4] had a positive total return during the first six months of 2022. For many sectors of the market, the percentages were even lower as shown in the table below. Energy was the only sector with positive performance driven by much higher oil prices (a little summertime Texas Tea, anybody?). Outside of Energy, there were more money losers than winners in every sector of the market so far in 2022. There just haven't been many areas to hide lately:

**% of Stocks with Positive Total Return as of June 30, 2022**
***(and average performance of each sector's stocks)***




As contrarian value investors, we believe this type of widespread market decline can be ideal for finding undervalued stock opportunities both within the Fund (by purchasing more of our current holdings) or outside (new ideas). For the Fund's holdings that have declined significantly this year—of which there have been several—if we conclude that our Key Thesis Points™ are still valid (stock specific catalysts that we believe will improve long-term fundamentals) we will typically hold on to the stock or purchase more. This has been the case so far for the Fund's holdings in the current downdraft.

We also believe that if these conditions continue, we'll continue finding more opportunities in the market outside of the Fund that may be better than what we currently own. As value investors we typically find our best ideas in tough markets, where we believe the probabilities of mispricing increase because of investor overreactions and the fear that accompanies widespread market declines.

4 Using Russell 3000 constituents as of 12/31/21 that were still actively traded as of 6/30/22.

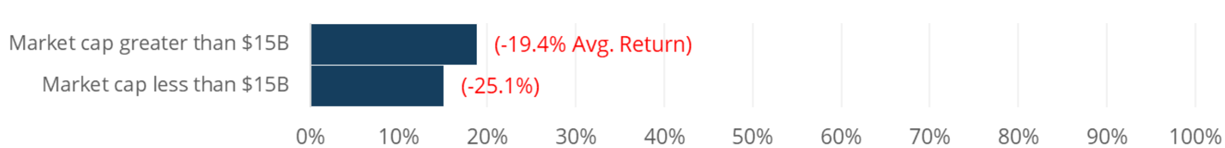
- ***Economic worries seem valid, but we think many of our stocks already reflect worse times ahead.*** Looking again at the chart above, sectors considered more economically sensitive have struggled in 2022 as recession worries have begun to permeate the market's psyche. We have seen evidence of a slowing economy in many earnings reports in recent months and with a multitude of headwinds (e.g., higher interest rates, inflationary pressures, "wealth effect" degradation from declines in stock, bond and other asset prices, and lower consumer sentiment), we would not be surprised to see a recession soon. As such, there have been strong headwinds for Consumer Discretionary, Financials, Technology, and Industrials stocks this year, given their sensitivity to economic conditions. Even Energy stocks have begun to decline in recent months after a red-hot start to the year. It is in these areas, however, that we hold some of our highest conviction investments today, even though several have declined meaningfully.

  We believe that in many cases the valuation ratios of our investments—especially the Fund's Deep Value stocks, which tend to be more economically sensitive—already assume a much weaker operating environment and investor sentiment has soured significantly. In some cases, the Fund's investments are at, or near, all-time valuation lows. In simple terms, we believe that even if earnings/cash flows decline because of recessionary conditions, we would not expect to see much, if any, further declines in valuation multiples for many of these stocks, helping to mitigate potential future losses. Conversely, we continue to shy away from companies with high valuation multiples that also sport historically high profit/cash flow margins. Similar to what we've already witnessed this year, the combination of a significant decline in high valuation multiples and deteriorating fundamentals can lead to bad outcomes.

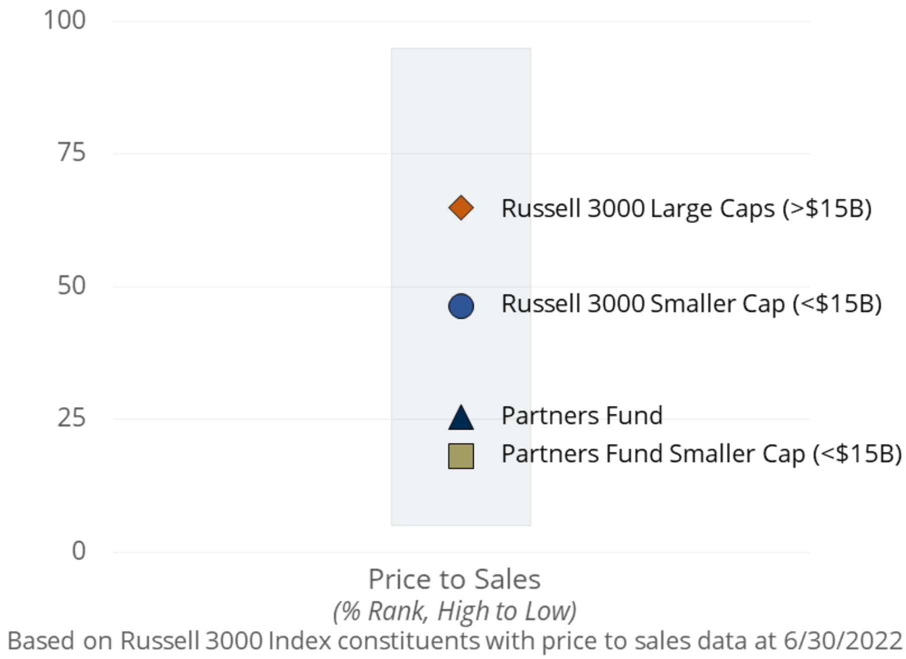
  We believe having a long-term view of a company's normalized, mid-cycle earnings potential (how much we believe a company could conservatively earn during a typical normal-growth economic environment) helps us look past the short-term effects of temporarily weaker economic conditions. Even though we think the probability of recession is high today, it's not a guarantee (we joke in our office that the market has successfully predicted at least 10 of the last 2 recessions!). Also, in our experience, even if a recession does occur, stock prices typically begin improving well before the recession is over. As such, we'll continue to stick to our discipline of selecting stocks that trade at what we think are low valuations when we see strong long-term promise by virtue of the Key Thesis Points™ we've identified through our fundamental research. We think this bottom-up approach makes sense, even in recessionary times.

- ***Small cap underperformance is leading to an even more attractive opportunity, in our view.*** While we remain fond of their long-term prospects today, small cap stocks have lagged the overall stock market and they continue to be a drag on the Fund's recent performance results. We attribute this underperformance to investor worries about economic deterioration, similarly to the sector performance noted earlier. As shown in the chart below, smaller companies in the Russell 3000 index underperformed their larger counterparts by both the percentage of stocks increasing and by the average decline so far in 2022. We continue to find more—and better, in our opinion—ideas in smaller companies and we believe the continued underperformance of smaller companies only enhances their long-term potential.

**% of Stocks with Positive Total Return as of June 30, 2022**
***(and the average performance)***



The graphic below shows that the valuation of the market's smaller companies remains significantly lower than larger-cap companies, which also illustrates the opportunity we see in smaller-cap companies. The Fund's stocks—especially its smaller stocks—also continue to be valued even more attractively (lower) relative to the overall market. The Fund's price to sales ratio on June 30, 2022 was near the market's least expensive quartile, with its smaller-cap investments even cheaper.




We think owning stocks with lower valuations is always prudent, but especially today in an environment where many investors are taking a more skeptical view of the future. From a pragmatic viewpoint, we think companies with lower valuations have more options to improve their stock prices. For example, share repurchases made at low valuations can result in material share count reductions and earnings per share accretion, dividend yields become more meaningful, and we believe activist investors and strategic/financial buyers become more interested in cheaper companies, leading to mergers and acquisitions activity.

**Conclusion**

We continue to believe the Fund is positioned well today with significant exposure to areas that we believe are very undervalued today. Specifically, the Fund continues to have significant exposure to Deep Value stocks (~44% weighting) and smaller-cap companies (~60% weighting in stocks with less than $15B market capitalization), both of which we believe are very attractively valued today and have strong long-term potential.

**Significant Fund Changes**

We purchased one new Core Value stock during the quarter, 3M Company (ticker: MMM – 2.25% of the Fund at June 30, 2022). 3M is a wonderful business that we've long admired but is currently mired in some legal issues relating to discontinued products that have caused some environmental and human damage. We believe the challenges MMM is facing are meaningful, but have been adequately discounted by the stock market, based on our analysis. We believe the company will resolve its legal issues (at a great cost, but a cost that it can easily handle) within the next two years, leading to more aggressive capital allocation (larger dividend increases on top of its strong current yield and more share repurchases). We also believe the company has strong pricing power for its products, so it is positioned well for a continued inflationary environment.

### Individual Stock Performance

**Contributors**: The two greatest contributors during the quarter were Core Value stocks CDK Global (ticker: CDK – 2.77% of the Fund at 06/30/22) and General Mills (ticker: GIS – 4.86% of the Fund at 06/30/22).

**CDK**: CDK Global received a buyout offer during the quarter (which has since been consummated in early July). We were disappointed with the offer price, but we see a silver lining in the fact that many other stocks are trading at good valuations today in our opinion, so we can deploy the proceeds into what we believe are other attractive investment opportunities.

**GIS:** General Mills has held up relatively better in a tough stock market, given that it is a stable Consumer Staples company that has proven its pricing power is working in today's highly inflationary environment. We think the company's Blue Buffalo pet food division is particularly attractive today and the company's results have been slightly better than the market's expectations, leading to outperformance.

**Detractors**: The two largest detractors were Deep Value stocks Big Lots (ticker: BIG – 2.93% of the Fund at 06/30/22) and Compass Minerals (ticker: CMP – 1.95% of the Fund at 06/30/22).

**BIG:** Big Lots quarterly earnings and annual guidance were significantly worse than expected, given an inventory glut that the company must now discount to clear out. Given the supply chain challenges over the past 18 months, Big Lots made a decision—a poor one in hindsight—to preorder a significant amount of relatively higher-cost inventory (e.g. seasonal furniture) late last year and as consumer spending began to slow in March, the company was stuck with excess inventory. We believe this issue will take a couple of quarters to clear through the company's financial results but does not materially affect the company's longer-term sales and cash flow potential, which we view very favorably today. Big Lots' stock is trading near all-time low valuation ratios relative to its sales, and we believe it is extremely undervalued today, despite its near-term headwinds.

**CMP**: Compass Minerals most recent results showed much better than expected sales, but much worse than expected margins because its core rock salt business (for winter road protection) had experienced very high inflationary costs, including fuel costs, which it cannot pass through to its customers until the next bidding season in 6-9 months. It also had some production issues in its fertilizer business, which held back profitability in that segment. These pressures, while temporary, are significant for 2022 and the stock declined accordingly. We continue to believe the market is giving Compass very little credit for its nascent lithium production business, which should begin generating a material amount of revenue and cash flow within the next 3 years and for the inherent value in its salt and fertilizer businesses, which should produce much better performance in the next 12-18 months, in our opinion.

### Final Comments

Thank you for your investment in the Fund. We hope you will stay safe and well in 2022. We have high conviction in the Fund's stocks, and we are invested alongside you. We appreciate your support, and we will continue to strive to prudently manage your money.

Sincerely yours,

Ryan Batchelor, CFA, CPA
Principal, Chief Investment Officer
Clifford Capital Partners, LLC

***The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling (800) 628-4077, or by going to the Clifford Capital Funds website at cliffordcapfunds.com and clicking on the "Prospectus" link. Read it carefully before investing.***

***Fund holdings are subject to change at any time and should not be considered a recommendation to buy or sell any security.***

### *Information about Risk*

**Risks of Investing in Equity Securities.** Overall stock market risks may affect the value of the Fund. Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets. When the value of the Fund's investments goes down, your investment in the Fund decreases in value and you could lose money.

**Risks of Small-Cap and Mid-Cap Securities.** Investing in the securities of small-cap and mid-cap companies generally involves substantially greater risk than investing in larger, more established companies.

**Risks of Large-Cap Securities.** Prices of securities of larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the Fund's value may not rise as much as the value of funds that emphasize companies with smaller capitalizations.

**Focused Investment Risk.** The Fund is a focused fund and generally holds stocks of between only 25 and 35 companies. Focused funds may invest a larger portion of their assets in the securities of a single issuer compared to a more diversified fund. Focusing investments in a small number of companies may subject the Fund to greater share price volatility and therefore a greater risk of loss because a single security's increase or decrease in value may have a greater impact on the Fund's value and total return.

**Sector Risk.** The Fund may emphasize investment in one or more particular business sectors at times, which may cause the value of its share price to be more susceptible to the financial, market, or economic events affecting issuers and industries within those sectors than a fund that does not emphasize investment in particular sectors.

**Management Style Risk.** Because the Fund invests primarily in value stocks (*stocks that the Adviser believes are undervalued*), the Fund's performance may at times be better or worse than the performance of stock funds that focus on other types of stock strategies (*e.g., growth stocks*), or that have a broader investment style.

***The Clifford Capital Funds are distributed by Foreside Fund Services, LLC, Member FINRA/SIPC***